

# Consolidated Financial Report for the March 2018 Term

<Under Japanese GAAP>

May 8, 2018

## SATO HOLDINGS CORPORATION

Company code number: 6287  
 (URL <http://www.sato.co.jp>)  
 Shares traded on: TSE1  
 Executive position of legal representative: Ryutaro Kotaki, President and CEO  
 Please address all communications to: Yoichi Abe, Vice President and Chief Financial Officer (CFO)  
 Phone: 03-5745-3414  
 Date of Ordinary General Meeting of Shareholders: June 25, 2018  
 Date of commencement of dividend payments: June 26, 2018  
 Scheduled submission date for annual securities report: June 26, 2018  
 Supplementary explanatory materials for financial results: Available  
 Holding of meeting to explain financial results (for analysts and institutional investors): Yes

(millions of yen, with fractional amounts discarded)

### 1. Consolidated operating results for the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

#### (1) Consolidated financial results

(Percentage figures show year-on-year change.)

Fiscal year ended	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2018	113,383	6.7	6,249	2.4	5,888	8.5	4,074	26.5
March 31, 2017	106,302	0.8	6,104	(5.4)	5,426	(11.3)	3,221	(12.7)

(Note) Comprehensive income: Fiscal year ended March 31, 2018: ¥3,772 million (-6.6%)  
 Fiscal year ended March 31, 2017: ¥4,038 million (-%)

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity ratio	Ratio of ordinary income to total asset	Ratio of operating income to net sales
	(Yen)	(Yen)	(%)	(%)	(%)
March 31, 2018	121.54	121.38	7.6	5.6	5.5
March 31, 2017	96.07	95.95	6.2	5.4	5.7

(N.B.) Equity in earnings or losses of affiliates: Fiscal year ended March 31, 2018: ¥(6) million  
 Fiscal year ended March 31, 2017: ¥(303) million

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2018	106,447	56,225	51.5	1,634.69
March 31, 2017	104,280	54,217	50.8	1,579.53

(N.B.) Total equity:

As of March 31, 2018: ¥54,805 million

As of March 31, 2017: ¥52,957 million

## (3) Consolidated cash flows statement

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
Fiscal year ended	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
March 31, 2018	6,184	(3,504)	(3,458)	16,026
March 31, 2017	10,769	(8,716)	(1,343)	16,757

## 2. Dividends

	Annual dividend per share					Total dividends paid (total)	Dividend payout ratio (consolidated)	Dividend to net assets (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
March 31, 2017	–	30.00	–	30.00	60.00	2,024	62.5	3.9
March 31, 2018	–	32.00	–	33.00	65.00	2,193	53.5	4.0
March 31, 2019 (Forecast)	–	35.00	–	35.00	70.00		57.2	

## 3. Consolidated forecasts for the fiscal year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

(Percentage figures show year-on-year change.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Basic earnings per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	
Six months	58,000	5.8	2,800	9.5	2,700	13.9	1,500	(37.8)	44.74
Annual	120,000	5.8	7,300	16.8	7,100	20.6	4,100	0.6	122.29

**\* Notes**

- (1) Changes in significant subsidiaries during the term (changes in specified subsidiaries resulting in the change in scope of consolidation): None
  
- (2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
  - 1) Changes in accounting policies due to revisions to accounting standards: None
  - 2) Changes in accounting policies due to other reasons: Yes
  - 3) Changes in accounting estimates: Yes
  - 4) Restatement of prior period financial statements after error corrections: None
  
- (3) Number of issued shares (common shares)
  - 1) Number of issued shares at the end of term (including treasury shares):

As of March 31, 2018:	34,921,242 shares
As of March 31, 2017:	34,921,242 shares
  - 2) Number of treasury shares at the end of term:

As of March 31, 2018:	1,394,994 shares
As of March 31, 2017:	1,394,065 shares
  - 3) Average number of shares during the term

Fiscal year ended March 31, 2018:	33,526,760 shares
Fiscal year ended March 31, 2017:	33,526,661 shares

**\* Financial reports are not subject to audit conducted by certified public accountants or audit firms.**

**\* Explanation about the proper use of consolidated forecasts and other notes**

*Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Results may differ materially from the consolidated forecasts due to various factors. Please refer to page 5 of the attached materials for the suppositions that form the assumptions for consolidated forecasts and cautions concerning the use thereof.*

## Attached Materials

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## **1. Overview of Financial Performance and Others**

### **(1) Overview of financial performance during the fiscal year ended March 31, 2018**

The SATO Group has launched a five-year Medium-term Management Plan (FY2017–FY2021) geared toward the business vision of becoming the leader and most trusted company in the auto-identification solutions industry worldwide, exceeding customer expectations in an ever-changing world, under the slogan of pursuing “Ceaseless Creativity for a Sustainable World.” The entire Group has been working together to implement this plan that aims to realize sustainable growth and stable profits at the group level by increasing earning power in auto-identification solutions and achieving operating profitability in the new materials business by FY 2019. (To reflect our recent business developments, changes in the external environment, and our performance for this fiscal year under review, partial changes have been made to the Medium-term Management Plan that will now begin in FY 2018 (the fiscal ending March 31, 2019). An overview of these changes will be provided at our forthcoming financial results briefing.)

With various efforts made this fiscal year, our core auto-identification solutions business posted record-high sales and operating profit, making a strong showing in Japan particularly. Meanwhile, there have been partial delays in R&D until the next fiscal year for our materials business, which centers mainly on Inline Digital Printing (IDP), a technology invented and patented by the U.K.’s DataLase Ltd.

As a result, the SATO Group recorded an increase in net sales, up 6.7% from the previous fiscal year to ¥113,383 million, and an increase in operating income, up 2.4% to ¥6,249 million. Ordinary income increased by 8.5% to ¥5,888 million, and net income attributable to owners of parent increased by 26.5% to ¥4,074 million.

By segment, the SATO Group reported the following.

The Group has changed its reporting segments from the former four geographical segments (Japan, Americas, Europe, and Asia and Oceania) to three business segments comprising Auto-Identification Solutions Business (Japan), Auto-Identification Solutions Business (Overseas), and Materials Business, effective from this fiscal year, based on the aforementioned Medium-term Management Plan (FY2017–FY2021). Accordingly, all year-on-year change figures for this fiscal year are computed by comparing against prior-year values that have been retroactively adjusted to reflect the new segment classifications.

#### <Auto-Identification Solutions Business (Japan)>

In Japan, the auto-identification solutions business generated a year-on-year increase in revenues across all markets amid robust demand primarily from the manufacturing and logistics sectors. Sales reached a record high as both sales and profits finished better than initial forecasts and previous year’s levels.

Given the aging workforce and labor shortage trends in Japan, many companies face the common challenge of having to optimize their business operations by increasing productivity. This creates rising demand for automation and streamlining operations, bringing about a marked increase in business for solutions using RFID and collaborative robots. At the same time, we are also seeing rising needs for accuracy assurance and traceability in manufacturing, healthcare, and food markets for example.

At SATO, we have committed to switch to “Sell the solution, not the product,” with a focus on increasing customer value. Profitability also improved as we achieved higher sales and profits for such business involving total solutions combining maintenance services, supply products, and software, which grew substantially alongside the large increase in sales volume of our strategic CLNX printer series. Going forward, we aim to further strengthen our ability to propose solutions for increasingly sophisticated challenges at different customer sites while entering into collaborations with partners so as to grow this business stably.

Under these circumstances, net sales increased 4.8% to ¥70,482 million, and operating income rose 27.5% to ¥5,831 million, compared to the previous fiscal year.

#### <Auto-Identification Solutions Business (Overseas)>

Overseas, the auto-identification solutions business posted higher sales and profits amid moderate recovery in the global economy as a whole. There was, however, an overall decline in profits for our companies specializing in primary labels as the improved revenues/earnings at Brazil’s Prakolar Rotulos Auto-Adesivos Ltda. from increased sales of high value-add labels was unable to offset the large decrease in operating profit at Russia’s Okil-Holding, JSC caused by a drop in its gross profit margin from foreign currency effects and increased up-front investments for improving productivity and creating new business opportunities. Meanwhile, for our sales subsidiaries engaging in our base business in other countries, some racked up operating losses due to increased software development expenses (SATO Global Solutions, Inc., U.S.) or due to higher costs as a result of factory relocation and foreign currency effects (U.K.). Nevertheless, sales and profits increased for our base business overall on account of the steady performance delivered by subsidiaries in the U.S., Germany and the Asia and Oceania regions as they made general progress in switching to “Sell the solution, not the product” to improve customers’ field operations based on our strategic CLNX printer series.

Under these circumstances, net sales rose 9.4% to ¥42,585 million (an increase of 4.0%, however, excluding foreign currency effects) and operating income rose 13.1% to ¥1,865 million, compared to the previous fiscal year.

<Materials Business>

For the materials business we started full-scale this fiscal year with Inline Digital Printing (IDP) after fully acquiring DataLase in January 2017, we were able to newly consolidated sales revenue from existing DataLase customers, but still recognized an operating loss due to the recording of R&D costs as up-front investment on the IDP technology and amortization of acquisition-related goodwill.

For DataLase, we are continuing discussions with multiple partners/customers for joint technology developments and full-scale IDP rollout, and a number of specific projects are now underway. Moreover, in November 2017 we started working together with Palo Alto Research Center (PARC; Xerox's wholly owned subsidiary located in California, U.S.) to develop a multi-color platform for the IDP technology. Within the SATO Group, we have also started specific initiatives — such as sharing/exchanging skills between DataLase and other group companies, and uncovering new customer needs — aimed at creating synergies with our existing businesses.

Under these circumstances, net sales rose 242.6% to ¥315 million (free from foreign currency effects), and an operating loss of ¥1,426 million was incurred, compared with an operating loss of ¥240 million for the previous fiscal year.



## **(2) Overview of financial position at the end of fiscal year, March 31, 2018**

### **a. Assets, liabilities and net assets**

At the end of the fiscal year under review, the balance of current assets was ¥57,161 million, an increase of ¥1,590 million (from ¥55,571 million recorded at the end of the previous fiscal year). This was primarily the result of an increase in notes and accounts receivable - trade of ¥1,522 million. The balance of non-current assets was ¥49,286 million, an increase of ¥576 million (from ¥48,709 million at the end of the previous fiscal year). This was primarily the result of an increase in property, plant and equipment of ¥4,047 million, as well as decreases in intangible assets of ¥2,170 million and investments and other assets of ¥1,300 million.

The balance of current liabilities was ¥34,064 million, a decrease of ¥382 million (from ¥34,446 million at the end of the previous fiscal year). This was primarily the result of decreases in notes and accounts payable - trade of ¥616 million and short-term loans payable of ¥1,052 million, as well as an increase in accounts payable - other of ¥1,161 million. The balance of non-current liabilities was ¥16,157 million, an increase of ¥540 million (from ¥15,616 million at the end of the previous fiscal year). This was mainly due to an increase of ¥610 million in long-term lease obligations.

The balance of net assets at the end of the fiscal year under review was ¥56,225 million, an increase of ¥2,008 million (from ¥54,217 million at the end of the previous fiscal year). This was primarily due to an increase of ¥1,982 million in retained earnings, as well as a decrease of ¥289 million in foreign currency translation adjustment.

### (3) Overview of cash flows during the fiscal year ended March 31, 2018

At the end of the fiscal year under review, cash and cash equivalents (referred to below as “cash”) stood at ¥16,026 million, a decrease of ¥731 million compared to the end of the previous fiscal year.

The major cash flow-related factors for the fiscal year ended March 31, 2018 are outlined below.

#### *Cash flows from operating activities*

Net cash provided by operating activities amounted to ¥6,184 million.

This resulted primarily from ¥6,494 million of profit before income taxes, ¥4,307 million for depreciation, ¥1,258 million for amortization of goodwill (the latter two being non-cash items), and a ¥949 million increase in accounts payable - other, as well as a ¥1,766 million increase in notes and accounts receivable - trade, a ¥1,063 million decrease in notes and accounts payable - trade and ¥2,985 million of income taxes paid.

#### *Cash flows from investing activities*

Net cash used in investing activities totaled ¥3,504 million.

This resulted primarily from expenditures of ¥6,064 million for purchase of property, plant and equipment and ¥1,266 million for purchase of intangible fixed assets, as well as ¥3,870 million proceeds from sales of property, plant and equipment.

#### *Cash flows from financing activities*

Net cash used in financing activities amounted to ¥3,458 million.

This resulted primarily from a ¥1,353 million decrease in short-term loans payable, ¥2,089 million of cash dividends paid and ¥628 million for repayments of lease obligations, as well as ¥652 million proceeds from long-term loans payable.

#### *Trend in cash flow indices*

Fiscal year ended	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Equity ratio (%)	55.9	52.9	50.8	51.5
Equity ratio based on market value (%)	95.9	83.0	76.3	106.0
Ratio of cash flow to interest-bearing debt (%)	106.9	264.6	157.9	271.6
Interest-coverage ratio (times)	43.5	32.9	83.5	43.6

(Notes)

The equity ratio is equal to shareholders' equity divided by total assets.

The equity ratio based on market value is equal to total stock market capitalization divided by total assets.

The ratio of cash flow to interest-bearing debt is equal to interest-bearing debts divided by operating cash flow.

The interest-coverage ratio is equal to operating cash flow divided by interest payments.

\* All of the above indicators are calculated on a consolidated basis.

\* Total stock market capitalization is calculated by multiplying the closing share price on the final trading day of the fiscal year by the number of issued shares (excluding treasury shares) as of the corresponding fiscal year-end.

\* Operating cash flow equals total net cash flows provided by operating activities as stated in the consolidated statements of cash flows. Interest-bearing debts include all debts on which interest is paid, as stated in the consolidated balance sheets. Interest payments are equal to interest paid as stated in the consolidated statements of cash flows.

#### (4) Forecasts

The SATO Group will launch a new three-year Medium-term Management Plan beginning in FY 2018, which is partially revised from its old plan as aforementioned. We will strive to achieve our business vision to be the leader and most trusted company in the auto-identification solutions industry worldwide, exceeding customer expectations in an ever-changing world, under our mission of creating new value for our customers through products and services of superior quality and contributing towards a better and more sustainable world.

Our consolidated forecasts for the fiscal year ending March 31, 2019 are as follows.

Net sales	¥120,000 million	(increase by 5.8% year on year)
Operating income	¥7,300 million	(increase by 16.8% year on year)
Ordinary income	¥7,100 million	(increase by 20.6% year on year)
Net income attributable to owners of parent	¥4,100 million	(increase by 0.6% year on year)

The foreign exchange rates assumed in the above forecast are US\$1 = ¥110 and €1 = ¥130.

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Results may differ materially from the consolidated forecasts due to various factors.

## **2. Our Basic Stance regarding Selection of Accounting Standards**

The SATO Group chooses to use Japanese GAAP for accounting because Japanese accounting standards are now of high quality and internationally competitive as a result of convergence with international accounting standards and have been accepted to be equivalent to International Financial Reporting Standards (IFRSs) in Europe.

With regard to future adoption of IFRSs, the Group will give due consideration to domestic and international circumstances and take action accordingly.

### 3. Consolidated Financial Statements and Significant Notes Thereto

#### (1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2017	March 31, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	17,139	16,250
Notes and accounts receivable - trade	23,215	24,737
Securities	236	211
Merchandise and finished goods	7,585	7,761
Work in process	607	484
Raw materials and supplies	2,798	3,120
Accounts receivable - other	1,577	1,780
Deferred tax assets	819	968
Other	1,760	2,054
Allowance for doubtful accounts	(168)	(208)
<b>Total current assets</b>	<b>55,571</b>	<b>57,161</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures	13,209	14,941
Accumulated depreciation	(5,935)	(5,822)
Buildings and structures, net	7,274	9,119
Machinery, equipment and vehicles	25,136	26,865
Accumulated depreciation	(14,640)	(15,371)
Machinery, equipment and vehicles, net	10,496	11,494
Tools, furniture and fixtures	5,903	5,844
Accumulated depreciation	(4,563)	(4,518)
Tools, furniture and fixtures, net	1,339	1,326
Land	7,066	6,484
Construction in progress	1,174	2,973
<b>Total property, plant and equipment</b>	<b>27,351</b>	<b>31,398</b>
Intangible assets		
Goodwill	10,942	9,504
Software	4,151	3,587
Leasehold right	144	98
Other	1,368	1,246
<b>Total intangible assets</b>	<b>16,607</b>	<b>14,436</b>
Investments and other assets		
Investment securities	1,379	1,498
Long-term loans receivable	376	63
Guarantee deposits	615	617
Deferred tax assets	1,220	814
Other	1,846	842
Allowance for doubtful accounts	(687)	(385)
<b>Total investments and other assets</b>	<b>4,750</b>	<b>3,450</b>
<b>Total non-current assets</b>	<b>48,709</b>	<b>49,286</b>
<b>Total assets</b>	<b>104,280</b>	<b>106,447</b>

Unit: Millions of yen

	March 31, 2017	March 31, 2018
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	7,702	7,085
Electronically recorded obligations - operating	11,668	11,226
Short-term loans payable	4,338	3,286
Lease obligations	686	763
Accounts payable - other	1,876	3,038
Income taxes payable	1,714	1,121
Provision for bonuses	247	233
Provision for product warranties	223	410
Provision for loss on guarantees	–	350
Other	5,988	6,549
<b>Total current liabilities</b>	<b>34,446</b>	<b>34,064</b>
Non-current liabilities		
Long-term loans payable	8,663	8,891
Lease obligations	3,169	3,780
Net defined benefit liability	2,345	2,181
Provision for management board incentive plan trust	40	123
Other	1,398	1,180
<b>Total non-current liabilities</b>	<b>15,616</b>	<b>16,157</b>
<b>Total liabilities</b>	<b>50,063</b>	<b>50,221</b>
Net assets		
Shareholders' equity		
Capital stock	8,468	8,468
Capital surplus	7,775	7,712
Retained earnings	39,162	41,145
Treasury shares	(2,659)	(2,662)
<b>Total shareholders' equity</b>	<b>52,747</b>	<b>54,664</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	1
Foreign currency translation adjustment	854	565
Remeasurements of defined benefit plans	(645)	(426)
<b>Total accumulated other comprehensive income</b>	<b>209</b>	<b>140</b>
Share acquisition rights	99	99
Non-controlling interests	1,160	1,320
<b>Total net assets</b>	<b>54,217</b>	<b>56,225</b>
<b>Total liabilities and net assets</b>	<b>104,280</b>	<b>106,447</b>

**(2) Consolidated statements of (comprehensive) income**  
**(Consolidated statements of income)**

Unit: Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net sales	106,302	113,383
Cost of sales	61,279	64,728
Gross profit	45,022	48,655
Selling, general and administrative expenses	38,917	42,405
Operating income	6,104	6,249
Non-operating income		
Interest income	135	127
Dividend income	12	32
Purchase discounts	21	27
Rent income	143	80
Other	202	186
Total non-operating income	516	455
Non-operating expenses		
Interest expenses	129	143
Sales discounts	59	61
Foreign exchange losses	108	268
Provision of allowance for doubtful accounts	304	83
Share of loss of entities accounted for using equity method	303	6
Other	289	252
Total non-operating expenses	1,194	816
Ordinary income	5,426	5,888
Extraordinary income		
Gain on sales of non-current assets	14	2,835
Gain on step acquisitions	598	–
Total extraordinary income	613	2,835
Extraordinary losses		
Loss on sales of non-current assets	7	171
Loss on retirement of non-current assets	39	122
Restructuring loss	–	929
Provision for loss on guarantees	–	350
Impairment loss	557	656
Total extraordinary losses	605	2,229
Income before income taxes	5,434	6,494
Income taxes - current	2,468	2,544
Income taxes - deferred	(298)	19
Total income taxes	2,170	2,563
Net income	3,263	3,931
Net income(loss) attributable to non-controlling interests	42	(143)
Net income attributable to owners of parent	3,221	4,074

**(Consolidated statements of comprehensive income)**

Unit: Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit	3,263	3,931
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	0
Foreign currency translation adjustment	766	(372)
Remeasurements of defined benefit plans, net of tax	8	219
Share of other comprehensive income of entities accounted for using equity method	–	(6)
Total other comprehensive income	774	(158)
Comprehensive income	4,038	3,772
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,773	4,005
Comprehensive income attributable to non-controlling interests	265	(233)



### (3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2017

Unit: Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	8,468	7,666	37,892	(2,559)	51,468
Changes of items during period					
Dividends of surplus			(1,950)		(1,950)
Net income attributable to owners of parent			3,221		3,221
Purchase of treasury shares				(501)	(501)
Disposal of treasury shares		109		401	510
Net changes of items other than shareholders' equity					
Total changes of items during period	-	109	1,270	(99)	1,279
Balance at end of current period	8,468	7,775	39,162	(2,659)	52,747

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	1	310	(654)	(342)	100	928	52,155
Changes of items during period							
Dividends of surplus							(1,950)
Net income attributable to owners of parent							3,221
Purchase of treasury shares							(501)
Disposal of treasury shares							510
Net changes of items other than shareholders' equity	(0)	543	8	552	(0)	231	782
Total changes of items during period	(0)	543	8	552	(0)	231	2,061
Balance at end of current period	1	854	(645)	209	99	1,160	54,217

Fiscal year ended March 31, 2018

Unit: Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	8,468	7,775	39,162	(2,659)	52,747
Changes of items during period					
Dividends of surplus			(2,092)		(2,092)
Net income attributable to owners of parent			4,074		4,074
Change in ownership interest of parent due to transactions with non-controlling interests		(63)			(63)
Purchase of treasury shares				(2)	(2)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	(63)	1,982	(2)	1,916
Balance at end of current period	8,468	7,712	41,145	(2,662)	54,664

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	1	854	(645)	209	99	1,160	54,217
Changes of items during period							
Dividends of surplus							(2,092)
Net income attributable to owners of parent							4,074
Change in ownership interest of parent due to transactions with non-controlling interests							(63)
Purchase of treasury shares							(2)
Net changes of items other than shareholders' equity	0	(289)	219	(68)		160	91
Total changes of items during period	0	(289)	219	(68)	–	160	2,008
Balance at end of current period	1	565	(426)	140	99	1,320	56,225

#### (4) Consolidated statements of cash flows

Unit: Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
<b>Cash flows from operating activities</b>		
Income before income taxes	5,434	6,494
Depreciation	3,996	4,307
Amortization of goodwill	1,195	1,258
Impairment loss	557	656
Loss (gain) on step acquisitions	(598)	–
Increase (decrease) in provision for loss on guarantees	–	350
Loss (gain) on sales of non-current assets	(6)	(2,664)
Loss on retirement of non-current assets	39	122
Loss on business restructuring	–	929
Increase (decrease) in allowance for doubtful accounts	294	101
Increase (decrease) in provision for bonuses	(20)	(18)
Increase (decrease) in net defined benefit liability	284	(15)
Interest and dividend income	(148)	(160)
Interest expenses	129	143
Foreign exchange losses (gains)	(287)	452
Decrease (increase) in notes and accounts receivable - trade	(570)	(1,766)
Decrease (increase) in inventories	(467)	(576)
Decrease (increase) in accounts receivable - other	(38)	(121)
Increase (decrease) in notes and accounts payable - trade	12,531	(1,063)
Increase (decrease) in accounts payable - other	(11,168)	949
Other, net	1,000	(126)
<b>Subtotal</b>	<b>12,158</b>	<b>9,252</b>
Interest and dividend income received	148	160
Interest expenses paid	(129)	(141)
Payments for business restructuring	–	(102)
Income taxes paid	(1,500)	(2,985)
Income taxes refund	91	0
<b>Net cash provided by (used in) operating activities</b>	<b>10,769</b>	<b>6,184</b>

Unit: Millions of yen

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
<b>Cash flows from investing activities</b>		
Payments into time deposits	(2,665)	(239)
Proceeds from withdrawal of time deposits	3,829	430
Purchase of investment securities	(157)	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(5,308)	–
Purchase of property, plant and equipment	(3,911)	(6,064)
Purchase of intangible assets	(879)	(1,266)
Proceeds from sales of property, plant and equipment and intangible assets	30	3,870
Other, net	346	(235)
Net cash provided by (used in) investing activities	(8,716)	(3,504)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	(4,443)	(1,353)
Proceeds from long-term loans payable	6,003	652
Repayments of long-term loans payable	(249)	(252)
Proceeds from sales of treasury shares	500	–
Repayments of lease obligations	(697)	(628)
Cash dividends paid	(1,950)	(2,089)
Other, net	(506)	212
Net cash provided by (used in) financing activities	(1,343)	(3,458)
Effect of exchange rate change on cash and cash equivalents	(164)	47
Net increase (decrease) in cash and cash equivalents	545	(731)
Cash and cash equivalents at beginning of period	16,212	16,757
Cash and cash equivalents at end of period	16,757	16,026

## **(5) Notes to consolidated financial statements**

### **[Segment information]**

#### **1. Overview of reportable segments**

Reportable segments are constituent units of the Company for which financial information is separately available. These segments have their operating results and allocation of business resources reviewed periodically by the Company's management team.

The SATO Group operates in, firstly, the auto-identification solutions business, and secondly, the materials business (which focuses on the IDP technology). The former involves providing one-stop auto-identification solutions for customers' challenges by combining relevant technologies/solutions both inside Japan and overseas to capture data on the movement of people and things at business sites and accurately link such data to IT systems.

This auto-identification solutions business can be further classified as domestic or overseas, as seen from such corresponding strategies set forth in our Medium-term Management Plan. As such, the Company's reportable segments have been changed accordingly to now comprise Auto-Identification Solutions Business (Japan), Auto-Identification Solutions Business (Overseas), and Materials Business.

#### **2. Computation method for net sales, profit or loss, assets, liabilities, and other item amounts by reportable segment**

The method of accounting by reportable segment is largely the same as the method of accounting used for the preparation of consolidated financial statements.

The income stated in the reportable segments is a figure based on operating income.

Intersegment income and transfer figures are based on consideration of prevailing market prices.

3. Information on net sales, profit or loss, assets, liabilities and other item amounts by reportable segment

Fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	Materials Business	Total
Net sales				
External customer sales	67,283	38,926	92	106,302
Intersegment sales and transfer	5,484	7,638	69	13,193
Total	72,768	46,565	161	119,495
Segment profit (loss)	4,571	1,650	(240)	5,981
Segment assets	89,417	46,787	8,351	144,556
Other items				
Depreciation	2,511	1,483	1	3,996
Amount of increases in property, plant and equipment and intangible assets	1,262	4,454	7,758	13,476

Fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	Materials Business	Total
Net sales				
External customer sales	70,482	42,585	315	113,383
Intersegment sales and transfer	5,967	8,250	66	14,285
Total	76,450	50,836	381	127,668
Segment profit (loss)	5,831	1,865	(1,426)	6,270
Segment assets	91,499	47,784	8,363	147,647
Other items				
Depreciation	2,572	1,716	18	4,307
Amount of increases in property, plant and equipment and intangible assets	3,922	5,024	97	9,044

4. Difference between the total amount of profit or loss, assets and other items for reportable segments and the amount recorded on the consolidated financial statements, and a major breakdown of the difference  
(Matters related to difference adjustment)

Unit: Millions of yen		
Net sales	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Reportable segments total	119,495	127,668
Intersegment eliminations	(13,193)	(14,285)
Net sales on the consolidated statements of income	106,302	113,383

Unit: Millions of yen		
Profit	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Reportable segments total	5,981	6,270
Intersegment eliminations	(11)	(33)
Amortization of goodwill	(13)	-
Adjustment of inventories	148	11
Operating profit on the consolidated statements of income	6,104	6,249

Unit: Millions of yen		
Assets	March 31, 2017	March 31, 2018
Reportable segments total	144,556	147,647
Intersegment eliminations	(39,843)	(40,779)
Other adjustment	(432)	(420)
Total assets on the consolidated balance sheets	104,280	106,447

Unit: Millions of yen						
Other Items	Reportable segments total		Adjustment		Amount recorded on the consolidated financial statements	
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Depreciation	3,996	4,307	-	-	3,996	4,307
Amount of increases in property, plant and equipment and intangible assets	13,476	9,044	-	-	13,476	9,044

**[Pertinent information]**

Fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

## 1. Information by product or service

Omitted because this information is the same as segment information.

## 2. Information by region

## 1) Net sales

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
67,375	13,580	12,525	12,821	106,302

## 2) Property, plant and equipment

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
12,715	2,633	7,311	4,690	27,351

## 3. Information by major customers

Omitted because there are no external customers (“external customer sales”) that account for 10% or more of the net sales recorded on the consolidated statements of income.

Fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

## 1. Information by product or service

Omitted because this information is the same as segment information.

## 2. Information by region

## 1) Net sales

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
70,558	14,444	14,567	13,813	113,383

## 2) Property, plant and equipment

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
14,208	2,443	9,064	5,681	31,398



3. Information by major customers

Omitted because there are no external customers (“external customer sales”) that account for 10% or more of the net sales recorded on the consolidated statements of income.

**[Information on impairment loss of non-current assets by reportable segment]**

Fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	Materials Business	Corporate and eliminations	Total
Impairment loss	-	557	-	-	557

Fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	Materials Business	Corporate and eliminations	Total
Impairment loss	242	414	-	-	656

**[Information on amortization of goodwill and remaining goodwill balance by reportable segment]**

Fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	Materials Business	Corporate and eliminations	Total
Amount of amortization	10	1,172	-	13	1,195
Balance at the end of period	35	3,154	7,752	-	10,942

(Note)

Goodwill is recorded when the SATO Group acquires barcode and other related businesses, and is not attributable to reportable segments.

Fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	Materials Business	Corporate and eliminations	Total
Amount of amortization	2	630	625	-	1,258
Balance at the end of period	-	1,901	7,603	-	9,504

**[Information on gain on negative goodwill by reportable segment]**

Not Applicable